



Department of Justice

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JUSTICE DEPARTMENT SUES TO BLOCK LONG ISLAND HOSPITAL COMBINATION

North Shore Health Systems and Long Island Jewish Medical Center Combination Likely to Lead to Higher Hospital Prices on Long Island

WASHINGTON, D.C. -- The Department of Justice filed a civil antitrust suit today to block the combination of two flagship hospitals on Long Island--North Shore Health Systems and Long Island Jewish Medical Center--because it would likely lead to higher hospital prices and inhibit the development of competing hospital networks on Long Island.

"Today managed care companies serving Long Island have a choice of anchor hospitals to include in their plans, and competition between these two hospitals has benefitted Long Island consumers," said Joel I. Klein, Acting Assistant Attorney General in charge of the Department's Antitrust Division.

"Unless this transaction is blocked, Long Island consumers will face higher prices."

In its complaint, filed in U.S. District Court for the Eastern District of New York, the Department said that North Shore's flagship hospital, North Shore Manhasset, and Long Island Jewish Medical Center are each other's principal competitor by virtue of their premier reputations, comparable full range of

services and strategic location. They compete head to head to be the "flagship" or "anchor" hospital in the networks of hospitals that managed care plans assemble on Long Island so that the plans can offer a choice of health care options to area employers, families and individuals.

The hospitals serve both Nassau and Queens Counties. North Shore Manhasset is located in Nassau County and Long Island Jewish Medical Center is located in Queens County.

Currently, a managed care company has the option of including either Long Island Jewish Medical Center or North Shore in its plan, or it can use a favorable price negotiated with one to obtain a price concession from the other and offer both hospitals in its plan. In either event, competition between the two hospitals keeps prices low, the Department said.

According to the Department's complaint, if the proposed transaction is allowed to go through, North Shore and Long Island Jewish Medical Center will cease to compete for the business of managed care plans. Managed care plans will only have a single entity to negotiate with, eliminating the bargaining that has benefitted consumers of health care services.

The complaint said that company documents acknowledge that the transaction would "free both hospitals from the stress of competition" and avoid the "threat of going 'down the street' to the competition."

North Shore is one of the largest health care delivery systems in the Northeast, consisting of nine hospitals with more than 3,400 beds and revenues of about \$1.8 billion. North Shore Manhasset is a prestigious, 729-bed teaching hospital that

competes vigorously with Long Island Jewish Medical Center--a well-known and highly regarded 591-bed academic hospital located only two miles away.

In its complaint, the Department also alleges that the proposed transaction is contrary to the State of New York's policy to promote competition among hospitals. Since 1991, New York has recognized and promoted the benefits of competition among hospitals. In September 1996, New York enacted legislation that substantially eliminated state regulation of hospital prices and permitted health plans to negotiate with New York hospitals for competitive rates.

According to the complaint, the proposed transaction represents the culmination of North Shore's longstanding efforts to frustrate New York's policy. Since 1993, North Shore has acquired seven additional hospitals, expanding its Long Island system to nine hospitals with more than 3,400 beds. Long Island Jewish Medical Center itself was concerned that these acquisitions would "substantially lessen competition among Long Island hospitals and give North Shore Network an overwhelming dominance over HMO patients. . . ."

In December 1994, the Department charged North Shore with orchestrating an agreement with six other Long Island hospitals through a joint bargaining agent that they formed, Classic Care, to prevent discounts for hospital services to managed care plans. That case was settled by a consent decree entered by the court in

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May 1995, preventing the hospitals from engaging in certain agreements involving fees or discounts with managed care plans.

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